

ADAPTABILITY IMPROVEMENT OF JAPANESE INTERNATIONAL HUMAN RESOURCE MANAGEMENT: A COMPARISON BETWEEN WESTERN MULTINATIONALS AND JAPANESE MULTINATIONALS IN ASEAN

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Abstract

The theme of this paper is to explore the adaptability improvement of international human resource management (IHRM) system of Japanese multinational corporations under global development of their operation. It is essential for the perpetual operation of Japanese overseas subsidiaries to establish themselves in, and adapt themselves to the local environment. In this study, special attention is paid to the Asian region. This paper also aims to extract the characteristics and problems of Japanese multinationals' IHRM by comparing the operations of Western multinationals with Japanese multinationals operating in ASEAN.

What kind of IHRM systems are constructed and practiced by Western multinationals which are operating in ASEAN? Are there any big differences in IHRM between Japanese multinationals and Western multinationals? And furthermore, what kind of management issues are they facing in this region and what kind of implications are there for their Japanese counterparts? This paper aims to clarify these points through case studies in this region. Finally strategies to tackle these problems of Japanese headquarters are investigated.

1. Introduction

The Japanese economy and Japanese companies, which are under global competition, have suffered after the explosion of the "bubble economy". In the last decade, many large Japanese companies have changed their structures through both external restructuring and internal restructuring. The result has been a decrease in the number of directors, the downsizing not only of personnel but also of the size of headquarters, and of the revision of human resource management (HRM) systems by, for example, introducing appraisal systems based on performance.

Strong emphasis is placed on making Japanese headquarters, especially world headquarters of multinational operations, smaller and more strategy-driven. It has been argued that Japanese headquarters tend to

solely occupy managerial resources and power. Japanese multinational organizations have been named "global companies" which have a centralized hub where most strategic assets, resources, responsibilities, and decisions are based (Bartlett and Ghoshal, 1989).

In this paper, I want to explore the adaptability improvement of Japanese international HRM systems under the globalization. In this exploration, special attention is paid to the Asian region. In the next section, a literature survey is made with special reference to the concepts of adaptability of the Japanese system overseas. Here, the internal rationality of the Japanese IHRM system is considered. The sources cited here are limited to those which are written by Japanese researchers. In the third section, the adaptability problems of Japanese multinationals are discussed and analyzed from the comparative perspective. In the forth section, the HRM systems of Western multinationals which are operating in ASEAN are looked at for comparison. Lastly, concluding remarks are expressed.

2. The Typology Analysis of Adaptability of Japanese HRM System:

A Literature Survey

There are three main types of discussions about Japanese HRM adaptability in the foreign setting.

The first type asserts that the Japanese HRM system can and should be introduced into the local operation. We name this type "the affirmation type". The second type asserts that the Japanese HRM system should not be introduced into the local operation and instead the local system should be practiced there. We name this type "the negation type". The third type takes in both dimensions at the same time. They attach importance to the localization or transformation of Japanese HRM system. We name this type "the compromise type". (See Table 1.)

For the advocates of "the affirmation type", it is a precondition for them that the Japanese HRM system, especially at plant level, is well advanced, efficient, and can be applied to any operation in the foreign setting. So their main focus in this matter is whether the Japanese HRM system is applicable to operations in other countries or not. Among these discussions there are three sub-types. The first is "the culturally oriented sub-type" which emphasizes cultural aspects. The second is "the partially possible sub-type" which emphasizes that the Japanese system is

Table 1.
Typologies of Discussions on the Adaptability of Japanese HRM System

Types	Sub-types (Main Advocators)
1. The Affirmation Type	1-1. The Culturally Oriented (Yasumuro) 1-2. Partially Possible (Takamiya, Ishida) 1-3. Intellectual Skill (Koike)
2. The Negation Type	2-1. Indigenous (Yoshihara)
3. The Compromise Type	3-1. Adaptability and Adoptability (Abo)

partially applicable. The third is “the intellectual skill sub-type” which stresses that the basics of the Japanese HRM system is applicable to other countries’ operations if the concept is well understood.

Yasumuro (1982) influenced by Hall’s functional definition of culture and thus arguing as a culturally oriented person asserts the following: the Japanese management system stems from a high context society, whereas the American management system stems from a low context society. Differences therefore exist in such fields as organizational participation, decision-making and its communication, employment practices, career paths, and appraisal methods. It is impossible for characteristics of the well established Japanese HRM system, such as long-term employment, generalist-oriented career development, ambiguity and informality of assessment criteria, seniority-based promotion and wage, and so on, to be applied and transferred to non-Japanese society. According to Yasumuro, these practices are so deeply built into the Japanese high-context society which is stable and untransferable.

For typical “partially possible sub-type” discussions, we refer to two advocators. Takamiya (1981), after observing carefully and comparatively the operations of Japanese, British, and American color TV plants in U.K., concluded that Japanese plants succeeded in the field of productivity and the quality of products. The reasons for these successes lay in production management, inter-organizational adjustments, and industrial relations systems. In the field of HRM, practices, such as giving careful consideration to the level of quality, flexible working practices, strict workplace discipline, job rotations, inter-departmental transfers, and internal single unionism, were the reasons for the success. The competitive advantages of Japanese transplants are based on the organizational

climate above mentioned, and so it is very difficult, if not impossible, to adapt them or spill them over into the foreign organizations.

There is one more "partially possible sub-type" view. After conducting many field surveys, Ishida (1985) strongly insists that the existence of flexible work behavior in Japanese organizations is only found in Japanese corporations. Between jobs there exists the broad area of undefined works, which workers are expected to cover spontaneously and flexibly depending on circumstances. This behavior is, he says, widely found in Japanese organizations, but under non-Japanese circumstances it is very difficult to transfer this feature. He adds at the same time that it is not impossible to introduce flexible work behavior, if it is introduced with both explicit explanation and well-structured training. On the other hand, he emphasizes that the HRM system based on attaching importance to human resources, community-orientation of the organization, and egalitarian treatment among social classes, is accepted and transferable. However, he stresses, the small differentials in compensation by job classification is acceptable for blue-collar workers only, and not for white-collar workers. Japanese foreign affiliates should introduce larger differentials in compensation by job classification for white-collar workers based on their performance. Otherwise, Japanese foreign affiliates will continue having difficulty in employing and retaining capable officers or managers.

Koike, who holds the honor of giving a name to this terminology, is an intellectual skill advocator. Intellectual skill allows workers to handle skillfully complex changes and problems that occur more frequently than is usually imagined. When changes and problems occur, as is quite common in industrialized countries, it becomes inefficient to keep job spans rigid and standardized (Koike and Inoki, 1990, p. 53). Long-term employment is a necessary condition for the formation of intellectual skill. During long-term employment, workers need to gain experience in a series of closely related jobs and learn the mechanism and structure of the machinery and of the production process. Seniority wages are indispensable to encourage long-term acquisition of such skill. Because intellectual skill is essentially a software technology, he argues, there is no reason to presume that it cannot be transferred, provided the necessary conditions are met. Koike and Inoki (1990) found the existence of intellectual skill not only in Japanese factories but also in every indig-

enous Thai and Malaysian case which they investigated.

Similar findings as those which were found in the case studies above are found in Koike's (1998, 1999) comparative study on NUMMI and its prototype plant in Japan. However, there was following reservation: the Japanese prototype plant (Takaoka) adopted basic pay-for-skill plans for long-term skill development with yearly increments subject to merit rating whereas NUMMI adopted a pay-for-job scheme, notably at a single rate without either yearly increments at merit ratings (Koike, 1998, p. 54). Nevertheless, he asserts that intellectual skill, which is widely developed in Japanese large plants, can be transferred and adapted with due consideration everywhere.

Let's look at the second type, that is, "the negation type". Some authors, such as Yoshihara (1996), assert that both the internal internationalization of Japanese headquarters and the management localization improve the performance of Japanese overseas subsidiaries. According to Yoshihara's terminology, management localization means to weaken the characteristics of foreign companies, that is, the Japanese system, and strengthen the characteristics of domestic companies. More specifically speaking from the HRM standpoint, management localization implies the reduction of the number of Japanese expatriates and the promotion of local employees to middle and senior management positions. He thinks that one of the reasons why so many Japanese expatriates are sent to overseas subsidiaries is as follows: the main language which is used to communicate between Japanese headquarters and overseas subsidiaries is Japanese. He implies the Japanese management system simply means the management style that is practiced in Japan.

Yet management is so diversified in Japan that it is impossible to get a common understanding of what is expressed as "the management style which is practiced in Japan." Furthermore, if the number of Japanese expatriates is reduced to zero, it is unclear how this argument can guarantee the outcome. Guarantee of the outcome is very important, because managerial activities exist for profit-making first, not for being indigenous, although being indigenous has a very important meaning for the morale of local employees as will be seen later. A slight correlation was found between indigenous presidents and the profitability of Japanese overseas subsidiaries (*ibid.* p. 151-153). However, this result must be carefully interpreted not to mix with spurious correlation, because the

president positions could be made indigenous because of good management performance and the resulting lack of need for the expatriation of senior management from Japanese headquarters. In other words, the causality could be reversed.

The third type, that is, "the compromise type", discusses both dimensions, that is, the introduction and making indigenous of the Japanese HRM system. Abo (1994) points out that the US plants of Japanese firms confront a dilemma. On the one hand, they attempt to introduce superior elements of their management and production system to the maximum extent possible ("application"). But, on the other hand, they must modify those same systems in an effort to adapt to various local environmental conditions ("adaptation"). This is what they call "the application-adaptation dilemma model". It is very important to take into account the multinational corporations' relative superiority, corporate-specific factors, and location-specific factors. Any system, which is developed under the specific local conditions, must be modified to some extent according to the new environment into which the system is newly transplanted. However it is quite difficult to identify what the Japanese-specific elements and US specific elements are. Elements were eventually identified via observation and discussion. They listed 23 elements broadly classified into 6 groups with the Japanese and US plant models positioned at either extreme. Each of the surveyed US plants of Japanese firms, i.e. the "hybrids", was evaluated for each element on a scale of 1 to 5 according to where it was situated on a continuum between these two models. (See *ibid.* pp.19-20.) This study might be painstakingly carried out but the measurement cannot avoid being *a priori* and subjective.

Thus, theoretically speaking, global parent companies, which have core values and core skills (Prahalad and Doz, 1987), apply or introduce their advanced know-how and technology into overseas subsidiaries with careful attention to local circumstances. In this case three preconditions should be met. First, the operation of subsidiaries should be profitable in the long run. Second, the activities should harmonize with local societies, including both local value system and local government policies. And, third, the subsidiary should act as a member of the multinational corporation (MNC) both in name and reality. In other words, the MNC group must have a high potential human resource inventory, a systematic control system, and a shared corporate policy or

a mission across borders.

In practice, however, there are many unavoidable problems. In the next section we will look at problems often found in Japanese MNCs.

3. Adaptability Frictions of Japanese MNCs in ASEAN: From A Comparative Perspective

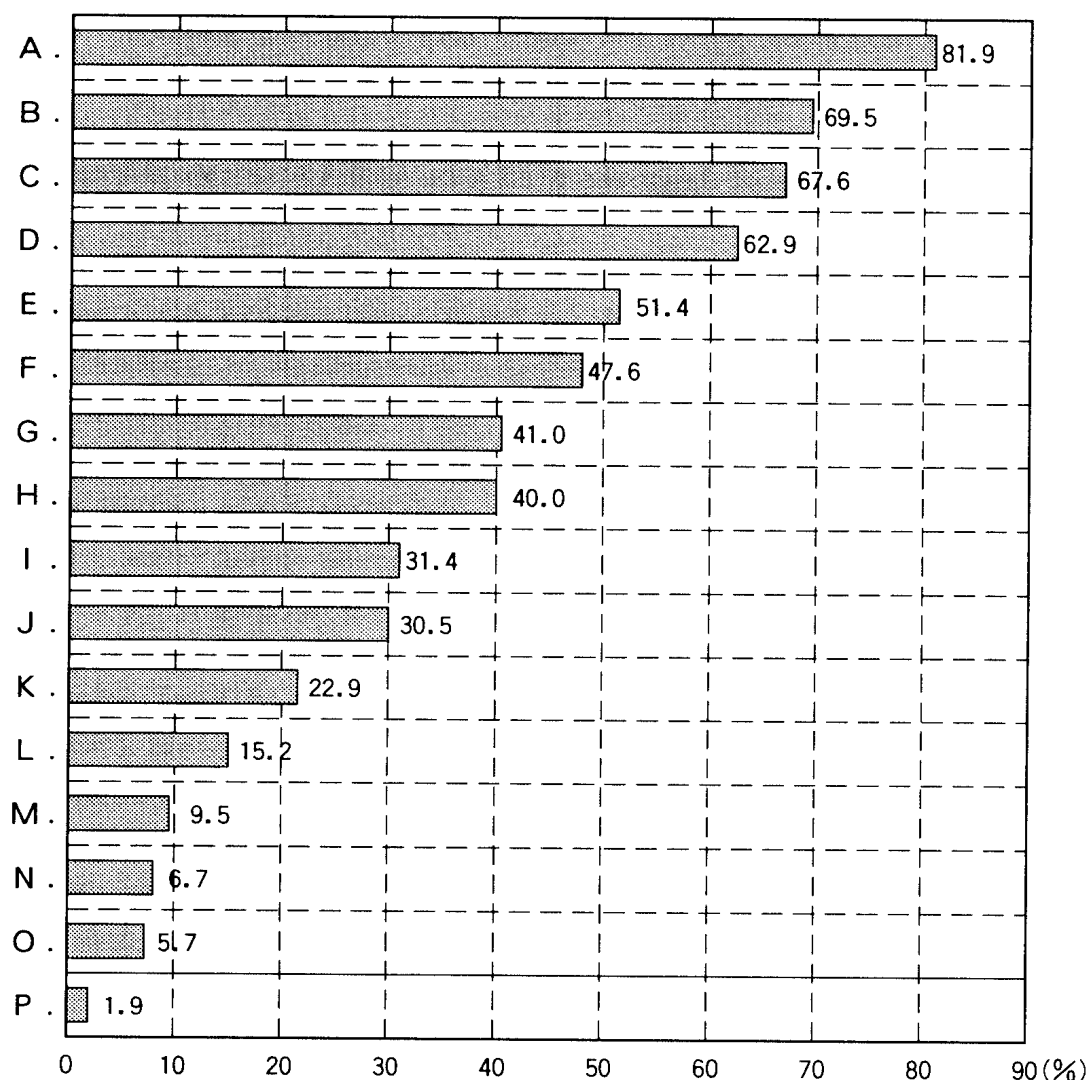
It has been pointed out that there are big differences between the HRM system for Japanese and that for local employees in the operation, especially the HRM operation, of Japanese enterprises in ASEAN. For example, there are big differentials between them in areas such as treatment and human resource development. If both Japanese headquarters and their subsidiaries take cost reductions into consideration, they would prefer to reduce the number of Japanese expatriates, who are dispatched as top or senior management or senior technical advisors or coordinators, by as many as possible. If they succeed they can achieve not only cost reductions but also the higher morale of local employees because of increased promotion opportunities for them. (Shiraki 1995)

However, whether they can reduce the number of Japanese expatriates or not depends on whether they can maintain consistent operations between the headquarters and local subsidiaries even after reducing the number of Japanese expatriates. To secure consistent operations between headquarters and local subsidiaries, it is necessary for headquarters to construct unified control and support systems for diversified subsidiaries all over the world, and to share the same managerial philosophy or principles among the group companies operating globally.

The results of our questionnaire survey⁽¹⁾, which asked Japanese MNCs about their way of control of overseas operations, are shown in Figure 1.

Figure 1 shows that head office's control is exercised predominantly through dispatching Japanese top management from headquarters. Of course, this method is connected with managerial prerogative and there must exist a diversity of exertion according to the Japanese head office's share of capital composition. After this method come calling head office meetings of the top management of overseas subsidiaries, setting guidelines and rules about the authorities delegated to overseas subsidiaries and the reporting system, and central controlling by headquarters of personnel and financial data. Mainly through these methods, Japanese

Figure 1. Methods for Controlling Overseas Subsidiaries (Multiple Answers)



(note)

- A. Dispatching Japanese top management from headquarters in Japan
- B. Calling head-office meetings of the top management of overseas subsidiaries
- C. Setting the guidelines and rules about such as the authorities delegated to overseas subsidiaries and their reporting obligation
- D. Unified control by headquarters of personnel and financial data
- E. Spreading corporate management principles and policies
- F. Introducing the periodical audit systems
- G. Controlling via individual divisions under the division system
- H. Controlling via regional organizations under the regional headquarters system
- I. Organizing the supporting systems in individual functional areas
- J. Holding the world-wide or regional-block meetings of the persons in charge of individual departments of local subsidiaries
- K. Centralized control by the head office of product development and R&D activities
- L. Long-term (over 1 year) secondment to the head office of local staff in Japan
- M. Recruiting and employing globally oriented personnel who are deployable anywhere in the world
- N. Adopting a unified system of performance evaluation and treatment for the Japanese head office and overseas subsidiaries
- O. Employment by the Japanese head office of managerial candidates having the nationality of the host country of the subsidiaries
- P. Others

head offices control their subsidiaries worldwide. In comparison, efforts to spread corporate-management principles and policies is rather low at 51.4%. Needless to say these methods are not mutually exclusive. For example, spreading corporate-management principles and policies is pursued and promoted not only at the head office meetings of the top management of overseas subsidiaries, but also through dispatching Japanese top management from headquarters.

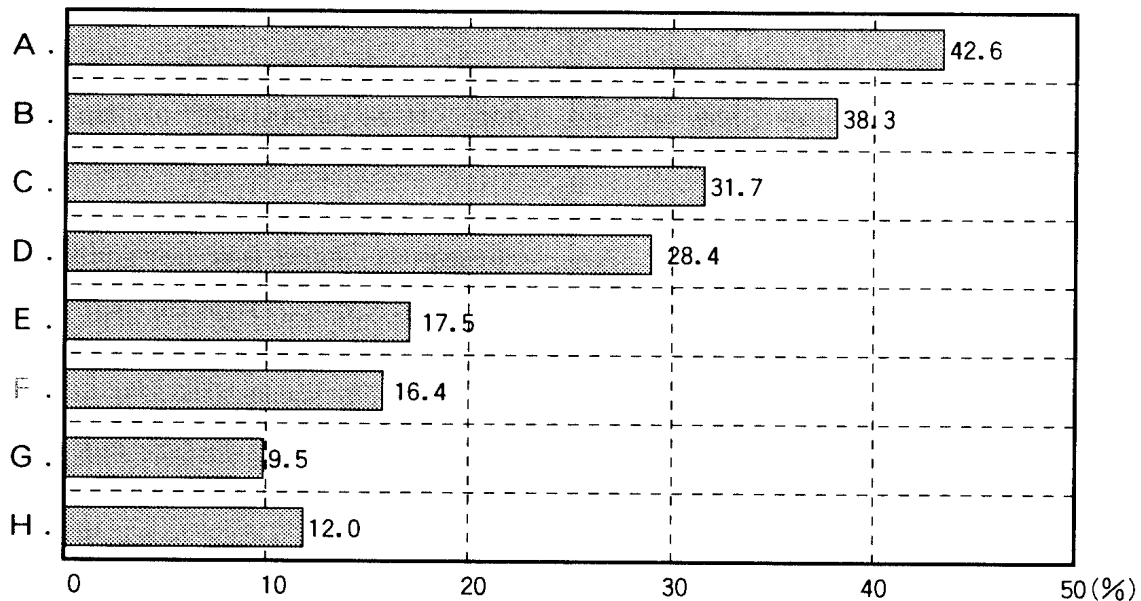
On the other hand, as shown also by Figure 1, very few corporations adopt the following policies, which seem to be effective ways of nurturing local staff and integrating them as group members: long-term secondment to the head office in Japan⁽²⁾; adoption of a unified system of performance evaluation and treatment of both Japanese and local personnel; and employment by the Japanese head office of local management candidates.

According to the survey of 183 Japanese subsidiaries operating in the five ASEAN countries of Thailand, Malaysia, Singapore, Indonesia, and the Philippines⁽³⁾, top management are either Japanese or local nationals, and there are no third country nationals in the survey. By the same token, expatriates consist of only Japanese in the Japanese subsidiaries. In this way the employment of each Japanese subsidiary in this region consists of only two nationalities, that is, Japanese and local. In a sense, Japanese overseas subsidiaries are "bi-national corporations" rather than "multi-national corporations".

Figure 2 of the same survey shows that the most serious management issues for Japanese subsidiaries are the difficulties in communication between Japanese and local staff and the retention of promising local staff. The questionnaire survey (Shiraki, 1996), which was conducted in Indonesia by the author, confirms the latter point as a serious and structural problem⁽⁴⁾. It is crucial to know why Japanese subsidiaries have a serious retention problem for university graduates. We will come back to this point later.

Figure 2 also points out that insufficient understanding of corporate philosophy and policies by local management is a big management problem. This point questions whether Japanese headquarters have made enough efforts to spread their corporate philosophy and policies into local management. It appears that the sharing of corporate philosophy and policies between Japanese headquarters and overseas subsidiaries insufficiently successful.

Figure 2. The Managerial Issues of Japanese Subsidiaries in ASEAN (Multiple Answers)



(note)

- A . The communication problems between Japanese and local staff
- B . Insufficient ability of local key management staff
- C . Insufficient understanding of corporate philosophy and policy by local key management staff
- D . The communication problems between Japanese headquarters and local subsidiaries
- E . Insufficient number of Japanese expatriates
- F . Insufficient ability of Japanese expatriates
- G . Industrial relations
- H . Others

4. The HRM Practices of Western Multinationals in ASEAN

The situations of Japanese multinational corporations operating in ASEAN are briefly described above. Then, what kind of HRM systems are constructed and practiced by Western multinationals which are operating in ASEAN? Furthermore, what kind of management issues are they facing in this region and what kind of implications do these have for their Japanese counterparts? This section aims to clarify these points using field research results from 11 Western subsidiaries.⁽⁵⁾

(1) Management principles

All multinational companies clearly lay out their management principles. The concept of management principles as “global glue” (Bartlett and Ghoshal, 1989, p. 175) is crucial to maintaining a corporation’s identity as a multinational entity.

Despite Unilever (M)’s establishment of its own management princi-

ples ("vision") even before its parent company announced its "Corporate Purpose" in 1997, normally the head office draws up management principles and values which are then conveyed to lower-level organizations through different channels and methods. Management principles and other concepts are usually translated into several languages, a feature typically seen in multinational corporations. At Bestfoods (HK), for instance, they compile their management principles, policies, and guidelines into a booklet which is translated into 25 different languages, and distribute the booklets to their subsidiaries throughout the world.

Needless to say, management principles will carry actual meaning only after they are put into practice on a daily basis, in addition to making them clearly known and understood by the employees. IBM (S) and Nestle (T), for instance, break down their management principles into goals for the workplace and goals for individual employees, and conduct WET (Win, Execute, Team) movements to achieve those goals. Along with this, MBO is implemented, which is further linked to evaluations and training.

(2) Distribution and delegation of authority

As far as the distribution and delegation of authority between parent companies and subsidiaries are concerned, all companies must, in principle, obtain the approval of the head office for the following items, which are matters over which the head office has exclusive jurisdiction:

- (a) Investments above a certain amount;
- (b) Advancements into new businesses and launch of new products; and
- (c) Appointments of local personnel both top management and their immediate subordinates.

The same principle also applies to multinational corporations in Japan. In some cases and for some products, HP transfers the focus of worldwide decision-making to lower levels in its organization. HP (S), for instance, is currently given worldwide charters that enable it to utilize exclusively and globally such functions as design, development, manufacture, and marketing for a multiple number of products. In this case, the persons in charge of the chartered departments make decision-making at various levels for investments and other matters. Needless to say, regional head offices such as Bestfoods Asia (HK) bear the responsibility for profits, and are given even greater authority on investments and

personnel matters.

(3) Localization status

A study of the nationality of top managers reveals that, as shown in Table 2, except Citibank (S) whose top executive was of unknown nationality, four out of ten companies had host or local country nationals (HCNs) as top managers, while the remaining six had people sent from other countries. Of these, the only case in which a person was sent from a country in which the head office is based, was a German national, or parent country national (PCNs), for Siemens (S). The rest were all sent from third countries or were third country nationals (TCNs). It is of interest to note that, of the five subsidiaries of American multinational companies whose top manager was of known nationality, three had top managers with local nationality. The remaining two companies had Indian and Australian top managers. There were no American top executives among the companies surveyed.

Our survey of 183 Japanese subsidiaries, on the other hand, reveals that Japanese nationals occupy 78.7% of the president positions, and local nationals occupy 19.7% of such positions. Needless to say, these ratios change according to the share of capital composition. This situation is quite different from the situation of the Western multinationals mentioned above.

Table 2. Nationality of Top Management

Company	Top-management
Unilever (M)	Singaporean
Campbell Soup (M)	Malaysian
Siemens (M)	Dutch
Siemens (S)	German
Citibank (S)	n.a.
HP (S)	Singaporean
IBM (S)	Singaporean
Nestle (T)	British
P&G (T)	Indian
ABB (T)	Thai
Bestfoods Asia (HK)	Australian

The role expected of expatriates, as many companies have pointed out, is to carry out given assignments fully, and then to nurture local successors. Until local successors have been fostered, all responsibilities will fall on the expatriates. As far as the companies surveyed are concerned, the expatriates are generally sent from countries other than where the head office is based.

ABB (T) recognizes the importance of localizing both business and personnel. The company feels that even the post of country manager should be assigned wherever possible to a local staff member. To promote the localization of personnel, first, the company has established a wide range of human resource development programs within Thailand, within the region, and in other countries of the world, and second, the company screens out potential employees from the entire group worldwide, with the Swiss head office strongly committed to this task. ABB calls these processes MLP, or the Management Localization Process.

(4) Expatriates

As shown in Table 3, the average percentage of expatriates to total employees is 2.5%. This level is comparable to the level in Japanese subsidiaries, which is 1.8%⁽⁶⁾. The percentage of expatriates to total employees differs markedly from company to company. Generally speaking, the service division has a large proportion of expatriates, such as 7.3% at Citibank (S). Even among the same Siemens Group, Siemens (M), which specializes in semiconductors, has only a small number of expatriates, whereas Siemens (S), which conducts business that spans numerous business divisions, has a much higher proportion. What should be remembered here is that with the exception of Campbell Soup (M), which was set up fairly recently, expatriates come from diverse countries, which means that a large proportion are from third countries. For example, the twenty expatriates of ABB (T) are from 13 to 14 countries, mostly from Europe but including Asia as well.

When posts become vacant, in-house employees are given priority when selecting personnel, followed by expatriates, and then by people outside the company. As can be seen, companies give priority to local in-house staff. If appropriate personnel cannot be found from local in-house staff, companies request group companies in other countries to dispatch employees. If they still cannot find the right person, they then

Table 3. Percentage of Expatriates among Employees (%)

Company	Percentage of Expatriates
Unilever (M)	0.4
Campbell Soup (M)	0.8
Siemens (M)	0.04
Siemens (S)	8.5
Citibank (S)	7.3
HP (S)	1.3
IBM (S)	0.3
Nestle (T)	1.0
P&G (T)	3.4
ABB (T)	1.7
Bestfoods Asia (HK)	n.a. (*)
Average of 10 companies	2.5

(*) Of the entire Asian region's roughly 4,050 employees, approximately 50 are expatriates (1.2%).

recruit people from outside the company.

There are two types of expatriation: the separation type and the exchange type. The majority of expatriation is of the exchange type whereby employees usually belong to a certain company, are sent to work overseas for several years, and after completion of their assignment, return to their home country. Although companies normally adopt this method, there are numerous cases where, as a result of being stationed overseas for consecutive terms, employees work in other countries for extended periods of time.

An example of the separation-type of expatriation may be seen at Nestle. Of the roughly 30 expatriates at Nestle (T), 15 were sent from Switzerland. These people are called International Staff, and throughout their career, they work at subsidiaries in countries other than Switzerland. Thus, they build a so-called separation-type career. It should be noted, however, that not all these people are necessarily Swiss nationals. The remaining 15 expatriates from Japan, the Philippines, India, and other Asian countries are called Regional Expatriates. Although International Staff members are dispatched for relatively long periods of time (usually three years or more), this period may be shortened or

extended as needed. On the other hand, Regional Expatriates are dispatched for about 2 years on average. They are sent overseas to pursue their individual Career Development Programs (CDP), or, in other words, to accumulate a broad range of experience. Sometimes, Nestle (T) may also decide to adopt this method.

Before expatriation, all companies provide employees with information on the country they are assigned to, and training in the local language whenever necessary. Some companies, such as Campbell Soup (M), conduct pre-dispatch inspection tours of the assigned country. Meanwhile, Nestle (T) and P&G (T) provide the employee and his or her family with education and training in foreign culture and the local language after their arrival.

Incidentally, various companies frequently conduct short-term delegation to sister companies, rather than to the head office, as the need arises. In this case, the expenses are borne by the company that dispatches the personnel.

(5) Human resource training and inventory

P&G (T), for instance, adheres to a policy of recruiting the best people from the local market. One of the most important tasks of human resource departments is to decide on the best way to secure and foster these people. Normally they introduce education and training programs developed by the head office, fine-tune them to meet local requirements, and then implement them locally. IBM (S), which claims to be a "Learning Organization," mostly uses education and training course programs that they develop themselves. They currently offer 50 types of in-house education and training programs that last from 1 to 5 days. Each year, employees take an average of four courses, totaling 50 to 60 hours. In addition, they are asked to take part in external education and training programs whenever deemed necessary.

The only company that provides standardized worldwide training is Siemens (S). The Siemens head office draws up management policies and training programs on management principles for the entire corporate group, which are implemented uniformly all over the world. Meanwhile, different product and/or technical training programs are drawn up for each business unit. As in the former case, these programs are implemented uniformly on a worldwide basis. Systematic training programs

for managers and management potential have been established for different ranks so that they may be implemented uniformly on a worldwide basis. In this case, training of lower-ranking managers is done locally in the local language, while that of higher-ranking officials is done in Germany and in English. At HP (S), training of managers is done in accordance with their Training Management System, which is the same all over the world. If outstanding training programs are put into practice ("the best practice") in certain departments and/or countries, the company rapidly incorporates them and makes them available for use worldwide.

Many companies deliberately dispatch employees to head offices, as well as to training centers attached to head offices, to allow them to obtain professional knowledge and develop personal networks. For example, Nestle (T) receives information on annual seminars and workshops from the Central Training Center in Switzerland, and dispatches employees to attend them as necessary. ABB (T) has made similar arrangements.

Constructing and managing of outstanding personnel inventories comprising senior managers and "high potentials," ranging from formal to informal are handled in most cases by the company's world headquarters. Although this is done in different ways (e.g., Nestle (T) does it locally, and Unilever (M), regionally) and under different names (called "Junior Circle" at Siemens, and "Key People" at HP (S)), all the surveyed companies registered and managed "outstanding personnel." One of the characteristics of inventory management was that they were constantly updated.

In fostering high potential personnel, the multinational corporations surveyed placed great importance on foreign assignments. This is because unless an employee is willing to relocate to other countries, the company cannot appoint him/her to the best locations possible for training purposes (HP (S)), and to become a Plant Manager, an employee must have had the experience of handling different products (P&G (T)).

Generally speaking, local top management is assigned the task of identifying high potential personnel. In most cases, however, the selection criteria are vague. The exception to this case is Bestfoods (HK) which sets forth, relatively clearly, the qualifications and eligibility that identify a person as being "high potential." That is to say, those who are identified as high potentials are those with exceptional performance, who

have received consistently high evaluations over the previous three years, who can tackle risks confidently, and who aggressively take on different functions as well as assignments in different countries and regions. The important thing in managing high potentials is the fostering of such people on a long-term basis. Informal monitoring systems and appointment of mentors are deemed particularly crucial.

(6) Evaluation and grading systems

As far as the evaluation systems for managers and above are concerned, except for Siemens (M) and ABB (T) which have adopted unique systems developed exclusively for local use, most companies follow the head office system, and share the same system within the group. However, evaluation systems, even if sent from the head office, may be applied in diverse ways. Siemens (S), for instance, had to modify its evaluation system somewhat, to meet the local climate in which employees tended to avoid making direct comments to their bosses. In most cases, however, companies use the same evaluation system. This is because international corporations such as P&G constantly transfer their employees within group companies, and therefore a common system is essential.

The operation of evaluation systems is conducted by management by objectives (MBO). What all surveyed companies pointed out was that evaluation systems did not end with merely evaluating the person, and that advice for human resource development as well as education and training menu must be provided after evaluations have been made.

Campbell Soup (M) has established Job Grades on a worldwide basis, and rates various managers based on these Job Grades. However, salaries are adjusted in accordance with local standards.

(7) Communication issues

English is the official language used by all the European and US multinational companies surveyed. Local staff members are expected to be fluent in English if they are ranked officers and higher. Thus, in principle, there are no communication problems between expatriates and local staff members. Of course, expatriates may have a difficult time communicating directly with blue-collar, on-site workers. Before 1989, German was the official language used at Siemens, and even now, local

staff members of Siemens (S) may find some head office employees unable to communicate perfectly in English. Still, the company sees no apparent problems not only in language but also in communication. This is most likely because they conduct inspection tours prior to dispatch, as well as providing would-be expatriates with training on foreign culture and lessons in the local language.

Some exceptions did exist, however. These problems are caused by expatriates' ignorance and negative attitudes toward the culture and customs of the countries they are assigned to. Serious incidents are prone to occur at Siemens (M) when German employees who are sent to Malaysia fail to understand Islam and fail to pay due respect to it. If this occurs, the company encourages these expatriates to learn more about the religion and to adopt a more sympathetic attitude. If this does not work, the company may appeal directly to the head office's business group and have the expatriates returned to their home country. Siemens has sent home two expatriates for this reason. Problems arose at ABB (T) because of the negative attitude of one Anglo-Saxon expatriate. Thus far, the company has had one such expatriate, who was sent back home due to "incompatibility" with Thai culture.

Incidentally, none of the companies reported a problem of communication between the head office and subsidiaries. This may be because the management principles had been spread throughout the corporate group, the manual of the subsidiary's operations had been drawn up, and e-mail and other means of information communications are becoming increasingly common.

5. Concluding Remarks

The results of the above investigations and the theme of this paper imply the following about the adaptability improvement of Japanese international HRM systems.

First, European and US companies actively establish management principles ("global glue"), and make them known to their subsidiaries through many kinds of channels. Japanese counterparts should make more efforts to integrate their subsidiaries through propagating management principle aggressively as in the cases of Matsushita or NEC. On top of these efforts, Japanese MNCs must try to encourage local personnel to share the corporate identity at a level comparable to Japanese expatriates

or Japanese local staff.

Second, in looking at European and US companies' localization situations, we find a striking contrast with Japanese companies. Top executives of the multinational companies surveyed were made up of local people and foreign expatriates in a roughly 50-50 ratio. Moreover, the nationality of expatriates was almost always irrelevant to the country in which the head office was located. This may be because the role of an expatriate is to carry out the assignment satisfactorily and, at the same time, to foster local successors. Not only were the nationalities of top executives varied, but also the makeup of the expatriates' nationalities was literally "multinational," indicating that personnel from third countries were actively fostered and recruited. The fact that senior managers and high potential personnel are identified and registered, and that each subsidiary provided employees with the experience of working as expatriates, seemed to have contributed greatly to this. The characteristics of expatriation of European and US companies differ from those of Japanese companies, which rely heavily on Japanese expatriation. In a sense, Japanese multinational corporations can still be termed "bi-national corporations".

Some advanced Japanese MNCs, such as Sony, Matsushita, Toyota, Toray, Omron, Yazaki, and so on, have just begun to integrate career paths, including training and appraisal systems, both of Japanese and non-Japanese staff, and have thus begun to construct the high-potential pool globally. Still, the movement is just at the beginning and is widely different in programs from company to company. The important point here is that they are beginning to start to catch up with their Western counterpart in this matter.

Third, the objectives of training programs and centers located at the head office are to develop professional knowledge and to build a human resources network that transcends nationality and business. Japanese companies must consider building interpersonal relationships that allow employees to discuss their problems with their colleagues and that encourage superiors to provide advice to their subordinates, under a global and informal human resource development network such as this.

Fourth, it is necessary to clarify why there exists the problem of communication between expatriates and local staff. This is the greatest problem that plagues local subsidiaries of Japanese companies and is a

problem which is practically nonexistent in European and US companies. As far as surveyed companies are concerned, the biggest factor may be the linguistic competence of both Japanese expatriates and local staff. It is highly significant that in-house communication is carried out in English only. It is an urgent task for Japanese expatriates to improve their linguistic skills. On top of this linguistic skill, Japanese expatriates must understand that in the lower social context Japanese are requested to exchange information more often and more deeply. Since most expatriates are generally bewildered by the cultural differences they encounter and are greatly stressed by them for several months after arrival, there is a great need to provide Japanese expatriates with training in foreign cultures and languages after they arrive at their assigned country.

If the adaptability of the Japanese HRM system is improved in this way, Japanese MNCs can utilize fully both their well-advanced and efficient way of production and their newly recruited and internationally trained Japanese and non-Japanese personnel worldwide.

Notes

- (1) This data was obtained from survey results, which was conducted through the Japan Overseas Enterprises Association (JOEA) in 1996. The membership of JOEA consists of about 400 large enterprises, which have extensive overseas operations. The questionnaires to the Japanese head offices were returned from 105 membership enterprises out of 389, the collection ratio being 27.0%.
- (2) According to the questionnaire survey which compared Japanese and European multinational corporations by Oddou et al. (1995, Table 1.5), there is little possibility of employees of foreign nationalities being promoted to the top management positions of Japanese headquarters. This is quite different from the situation in European multinational corporations.
- (3) The survey was conducted for Japanese subsidiaries with more than ten-percent capital ownership by Japanese companies. See the more detailed survey procedures by JOEA (1997) and Shiraki (1999a).
- (4) The ratio of highly educated personnel was lower for Japanese subsidiaries in Indonesia. This factor should be a great hindrance to the localization of management. In fact, when we see the employment of highly educated personnel, especially university graduates, in both Japanese subsidiaries and Western subsidiaries that are operating in Indonesia, there are striking contrasts. Western subsidiaries not only have a strong propensity for employing university graduates, but also place more importance on preparing career paths for graduates than their Japanese counterparts do. This is similar to "the rice-paper ceiling" of Japanese subsidiaries which is shown in Kopp's paper (Kopp, 1994). In other words, Japanese subsidiaries provide lower initial positions and also lower ceiling positions, while Western subsidiaries provide higher

initial positions, higher ceiling positions, and a wider promotion range. Due to this, Japanese subsidiaries cannot avoid facing problems with recruitment and also with retaining graduate workers. In fact, Japanese companies tend to substitute university graduates with college graduates who have studied two years or less after leaving senior high school.

- (5) We visited the business sites to conduct interviews and gather information and materials. We were able to visit the following eleven companies: Unilever (M), Campbell Soup (M), and Siemens (M) in Malaysia; Siemens (S), Citibank (S), Hewlett Packard (S), and IBM (S) in Singapore, and Nestle (T), P&G (T), and ABB (T) in Thailand; and Bestfoods Asia (HK) in Hong Kong. Of these, only Bestfoods Asia (HK) in Hong Kong is a regional head office. For more detail information, see Shiraki (1999b).
- (6) See JOEA (1997) and Shiraki (1999a).

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